



Foreign Agricultural Service

**GAIN Report**

Global Agriculture Information Network

Required Report - public distribution

Date: 12/12/2001

GAIN Report #HO1008

## **Honduras**

## **Retail Food Sector**

## **Report**

## **2001**

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### **Report Highlights:**

**Honduras' retail food sector is rapidly developing. Honduras has made great strides in opening its markets to foreign trade and investment, which has propelled U.S. agricultural exports to Honduras from \$104 million in 1995 to \$206 million in 2000. Honduras consumers have strong preference for U.S. products. For the vast majority of shoppers price is the most important selling point for food and beverage products.**

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Includes PSD changes: No  
Includes Trade Matrix: No  
Annual Report  
Guatemala [GT1], HO

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## SECTION I. MARKET OVERVIEW

### A. Macroeconomic Outlook

According to the latest available data, in the year 2000, the main macro-economic indicators showed a moderately favorable economic panorama for Honduras:

- Public spending had a deficit of under 5%
- Inflation was 10.1%
- GDP grew at 4.8%
- Exports grew by 13.1% over previous year
- Increase in total imports by 7.5% over previous year
- Agricultural imports increased by 6% over previous year
- Foreign Currency Reserves grew by 8.2%

Honduras is showing signs of recovering from the devastation of the 1998 Hurricane Mitch. Demand for consumer-oriented products, as well as quality ingredients for the Hotel, Restaurant, and Institution industry (HRI) has risen. Another important factor is that since 1994, Honduras has made great strides in opening its markets to foreign trade and foreign investment. Import duties, which had ranged as high as 140%, have been decreased to between 1% and 15% for almost all products. Surcharges, customs administrative charges and consular fees have been abolished. Honduras has also done away with most non-tariff barriers to trade, including import licensing requirements. Duties on imports of raw materials have been reduced to 1 percent, and the administrative customs charge was eliminated for raw materials in 1998. This progressive trade liberalization has been largely responsible for propelling U.S. agriculture exports to Honduras from \$104 million in 1995 to \$206 million in 2000, according to U.S. trade data.

With average annual per capita income of \$937, it is no surprise that a large share of income goes to food purchases. In rural areas it is estimated that close to 65% of family income goes to buy food while in urban areas it is closer to 50%. Consequently, for food and beverage products, price is the most important selling point in Honduras. Although more and more women are entering the work force every day, particularly in the maquila sector, women remain the main decision makers when it comes to food purchases. U.S. products are often preferred based on quality, wholesomeness, and variety.

There is some uncertainty on the horizon, as most Mitch recovery projects end this year. There has been a strong demand for value-added products in the last two years, and the effect is not known of the exiting of foreigners associated with Mitch development programs. It is very possible that demand will decrease once they are gone.

The Consumer Price Index (CPI), a measure of the cost of the basic basket for goods and services, shows a cumulative increase of 8.3 percent as of October 2000; resulting primarily from increases in the price of fossil fuels, rent, electricity, food and non-alcoholic beverages, and shoes and clothing.

Honduran households spend relatively more money on food than in education and health. Food and non-alcoholic beverages account for 31.8 percent of the cost of the basic basket.. Consequently, Honduran consumers are sensitive to price changes in food items.

Weights of Consumer Expenditure Items on the Consumer Price Index	
<i>Item</i>	<i>%</i>
Food, and non-alcoholic beverages	31.8
Tobacco and alcoholic beverages	0.4
Shoes and clothing	8.2
Rent, electricity, water and fossil fuels	19.3
Furniture and household goods	6.7
Health	3.7
Transportation	9.1
Communications	1.7
Leisure and culture	4.0
Education	3.1
Restaurants and hotels	7.2
Personal Care	5.2
<b>TOTAL</b>	<b>100.0</b>

Source: Central Bank of Honduras, 2000

A breakdown of expenditures shows that, in average, households allot 20.5% of food expenditure is in staple grains (corn, rice and beans), 17% in fish, chicken and beef, 11% in milk and dairy products, 10% in fruits and vegetables, 8 % in bakery goods and 33% in other food products.

Rural households spend considerably less money in meat and dairy products, and more in staple grains. Urban consumers are more prone to purchasing processed, preserved and ready-to-eat food items.

Income distribution of 58% is in the hands on the richest 20%, while more than 41.1% of the population lives with under \$1 per day. In 2001, national per capita income is \$937, up from \$722 in 1999. That is an increase of 30% in just two years. Urban wages are 19.4 % above the national average. Rural wages are 37 % less than the national average. (Household Survey, 2001, INE).

## B. Retail Market

- The market for imported food products has increased due to consumer strong preferences for U.S. products which enjoy a high quality image among the urban population of 3.1 million.
- The target population is concentrated in the capital city of Tegucigalpa and in the industrial hub of San Pedro Sula. Together, these cities account for roughly 80 percent of food imports. Furthermore, as U.S. products enjoy a high quality image, there is a growing demand in other main cities such as El Progreso, La Ceiba, Choluteca, Comayagua, Danlí, and the Bay Islands, among others.
- Supermarkets and wholesale clubs share of retail food sales at the national level has increased to about 43%, up by 1% in the last year. The remaining 57 % of the food retail sales is allotted to convenience outlets, small stores, and traditional markets.

- Small 'mom & pop' stores (known as pulperias) and traditional mini-markets total approximately 5700 in Tegucigalpa, and 3,900 in San Pedro Sula. Both cities combined account for 55% of the total number of small stores in the country.
- Supermarkets and wholesale clubs carry a larger and more varied inventory of imported food products on a consistent basis, thus accounting for the largest volume of sales of consumer-ready (canned, preserved, processed, frozen and chilled) food products.
- Purchasing habits among consumers continue changing towards imported food products, urban consumers routinely buy groceries in a supermarket. There is recognition for the quality bought, wholesomeness and variety, plus the price incentives, or sales found in supermarkets attract customers.
- The membership discount club and bulk purchasing concepts have taken a strong foothold on the Honduran market, as the number of warehouse outlets and variety of items has increased. Furthermore, people from main cities in the rural areas travel to buy at this wholesale stores.
- Consumers and retailers alike continue to have a strong preference for U.S. food products, which are regarded as being of superior quality in comparison to local or regional products.
- In addition, with U.S. food products becoming more competitively priced, an increasing share of urban middle-low income homes are becoming avid buyers with a strong preference for American food items.

### C. Advantages and Challenges of Selling U.S. Products in Honduras

<i>Advantages</i>	<i>Challenges</i>
Hondurans continue to view U.S. products as of higher quality and safer than national and regional products.	Labeling requirements require the U.S. exporter to re-label a variety of products.
Increasing penetration of U.S. investment in the food retail sector is augmenting competitive market conditions for American firms.	Overall size of the market is small in comparison to neighboring countries. This restricts direct imports mostly to distributors.
Improved infrastructure allows for year-round availability of U.S. fresh fruits, vegetables, and frozen products.	The United States can be more competitive with an FTAA.

Changing consumer habits and effective market promotion are likely to continue increasing demand for U.S. products.	Complicated customs procedures, high tariffs on selective products and changing phytosanitary import restrictions.
There is strong presence of U.S. fast food outlets and casual dining restaurants.	Some imported U.S. food items cost more than local or regional product substitutes

## SECTION II. MARKET STRUCTURE AND SUB-SECTOR PROFILES

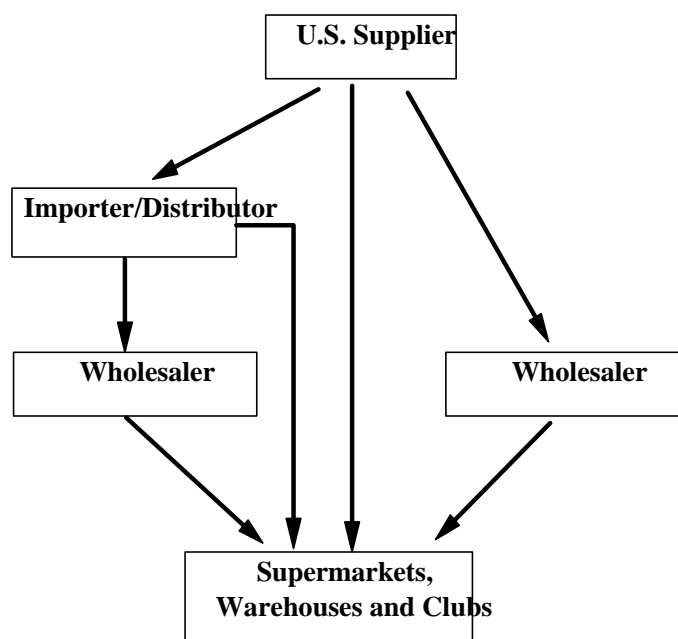
### A . Supermarkets, Hypermarkets and Club & Warehouse Outlets

#### Distribution Channels

The Honduran distribution channel follows a typical supplier, wholesaler and retailer chain. The bulk of imported products move from U.S. suppliers to local importers/distributors and finally to retailers.

In most cases, U.S. suppliers are wholesalers, which consolidate less-than-truck-load cargo volumes for Honduran importers.

A typical 40-foot container imported to Honduras will carry 20 to 40 different food items. Nearly 80 to 85% of U.S. food imports are bought from large suppliers in Miami, Florida. However, some U.S. suppliers are able to sell directly to local wholesale outlets and supermarkets. Major club outlets out source selected food items through their corporate purchasing operations, and are able to bypass the local distribution chain.



Local importer/distributor firms will carry a wide stock of brands and products at the same time, although some firms hold exclusive distribution permits for selected brands. Some supermarkets import exclusive food lines and use them as private label brands in their stores. U.S. firms seeking to enter into distribution services should exercise caution with local exclusivity laws and regulations.

Typically, expect importers/distributors to take responsibility of clearing customs,

merchandising, marketing and, in some cases, transporting products to retailers. There are four food distributors with capacity to supply both Tegucigalpa and San Pedro Sula markets: DIAPA, CODIS, Distribuidora Solis and DIMERC.

### **Entry Strategy**

Success in introducing products in the market depends on local representation and personal contact. Selecting a distributor is the easiest and fastest way to enter the market. Appoint a distributor that has a wide customer base, and that can provide extensive penetration and distribution support to your products. It is best if the distributor has previous experience in supplying supermarkets, hypermarkets and club outlets. U.S. firms are advised to meet and get to know the operations of potential distributors prior to establishing commercial agreements.

The local representative or distributor should be able to provide market knowledge, and guidance in local business practices and trade laws, as well as sales contacts. In many cases, the local representative or distribution will also be the importer. U.S. firms are advised to seek formal legal representation, as some food products require proper registration with the Honduran Health Ministry, as well as proper labeling codes according to local food safety regulations. The FAS and FCS offices in the U.S. Embassy in Tegucigalpa maintain listings of companies and lawyers to help guide U.S. firms through this process.

In order to improve the odds of success in entering the market, U.S. suppliers should provide labeling or re-labeling services, competitive pricing, credit, catalogs, printed material and samples to importers/distributors. Firms should also consider providing support to importers in order to develop sales, by way of shared advertising costs for new brands.

### **Company Profiles**

<i><b>Name &amp; Outlet Type</b></i>	<i><b>Ownership</b></i>	<i><b>Sales \$ Millions</b></i>	<i><b>Outlets</b></i>	<i><b>Location</b></i>	<i><b>Purchasing Agent Type</b></i>
<b>La Colonia Supermarket</b>	<b>Honduras</b>	<b>63</b>	<b>9</b>	<b>Tegucigalpa</b>	<b>Direct Importer Distributors</b>
<b>PALI Supermarket</b>	<b>Costa Rica</b>	<b>15.9</b>	<b>10</b>	<b>Tegucigalpa San Pedro Sula</b>	<b>Direct Importer Distributors</b>
<b>PRICESMART Wholesale Club</b>	<b>U.S.A.</b>	<b>48</b>	<b>2</b>	<b>Tegucigalpa, San Pedro Sula</b>	<b>Direct Importer Distributors</b>
<b>MAXI Supermarket</b>	<b>Costa Rica</b>	<b>14.3</b>	<b>5</b>	<b>Tegucigalpa</b>	<b>Direct Importer Distributors</b>
<b>STOCK Wholesale Club</b>	<b>Honduras</b>	<b>12</b>	<b>1</b>	<b>Tegucigalpa</b>	<b>Direct Importer Distributors</b>

<b>Junior Supermarket</b>	<b>Honduras</b>	<b>45</b>	<b>1</b>	<b>San Pedro Sula</b>	<b>Direct Importer Distributors</b>
<b>Mas x Menos Supermarket</b>	<b>Honduras</b>	<b>10</b>	<b>2</b>	<b>Tegucigalpa, Choluteca</b>	<b>Direct Importer Distributors</b>
<b>Comisariato Los Andes Supermarket</b>	<b>Honduras</b>	<b>20</b>	<b>1</b>	<b>San Pedro Sula</b>	<b>Direct Importer Distributors</b>
<b>YIP Supermarket</b>	<b>Honduras</b>	<b>9.5</b>	<b>1</b>	<b>Tegucigalpa</b>	<b>Direct Importer Distributors</b>
<b>Colonial Supermarket</b>	<b>Honduras</b>	<b>12</b>	<b>1</b>	<b>San Pedro Sula</b>	<b>Direct Importer Distributors</b>
<b>La Economica Supermarket</b>	<b>Honduras</b>	<b>15</b>	<b>2</b>	<b>San Pedro Sula El Progreso</b>	<b>Direct Importer Distributors</b>
<b>El Centro Supermarket</b>	<b>Honduras</b>	<b>3.3</b>	<b>1</b>	<b>San Pedro Sula</b>	<b>Direct Importer Distributors</b>
<b>ELDON Supermarket</b>	<b>U.S.</b>	<b>1.9</b>	<b>1</b>	<b>Roatan</b>	<b>Direct Importer Distributors</b>

Note: Sales figures are estimates obtained from industry sources

### **Trends and Highlights**

- Total number of units dropped from 39 in 2000, to 37 in 2001. However, total food sales increased by 20 million.
- Supermarkets continue to account for approximately 60-70% of food sales and 15-20% of beverage sales at retail. However, the entry of wholesale clubs has forced supermarkets to conduct more aggressive advertising and price discounting. Fairs of U.S. products are usually held by supermarkets.
- Retailers continue to demand high-volume discount prices regardless of their purchasing volumes.
- The supermarket sector is still in flux, and gravitating heavily towards consolidation. Two major chains have bought out smaller competitors or ailing supermarkets, while others are adding new stores throughout the country.
- One of the leading Distributor to supermarkets and convenience stores is DIAPA, who since 1966 is operating with local capital. DIAPA purchases a monthly average of \$50- to \$100,000 in U.S products, which are distributed to 1,961 outlets, such as: 91 supermarkets, 660 wholesalers, 49 convenience stores, 121 Drugstores, among others.



- The membership discount club and bulk purchasing concept has gained acceptance among consumers, as many find wholesale clubs much more suited for a one-stop-shopping experience, from food to electronic consumer goods. Food sales account for 25 to 30% of gross sales in wholesale clubs, with non-food products rapidly establishing a niche.
- Hypermarkets are not present in the market, although Price Smart has introduced small satellite service stores inside their showroom. Also, Price Smart offers U.S. policies applied to Honduras regarding guarantee of the products.
- A Paiz Super Store opened in San Pedro Sula October of 2001. This store is owned by the Guatemalan Paiz chain, which is part of Royal Ahold from the Netherlands. The plan is to open 2 more Super Stores in Honduras during 2002.
- Sales of fresh fruits and vegetables continue to rise, as increased investments in the cold chain allow for longer shelf life of perishable items. More agile import logistics allow consumers to purchase fresher fruits and vegetables at the retail stand. Two major supermarkets receive up to two shipments of fresh fruits and vegetables per week apples, pears and grapes are now available all-year round.
- Sausages, hams and other deli meat products have taken a strong foothold, as prices have become extremely competitive compared to local deli products. Pork cuts are also on the rise, especially smoked pork and ribs.
- High growth for dairy products such as fresh and cultured cheese, especially those of well-known brands such as Dorman, Land O'Lakes, Kraft and Borden.
- Refrigerated ready-to-eat foods and desserts continue to post mixed results. Slow demand growth and high costs for these products restrict retailers from buying full truck loads. Individual retailers complain that it is logistically impossible for them to consolidate refrigerated and dry food items aboard one container. Hence, retailers rely on local specialized importers to purchase frozen food items.

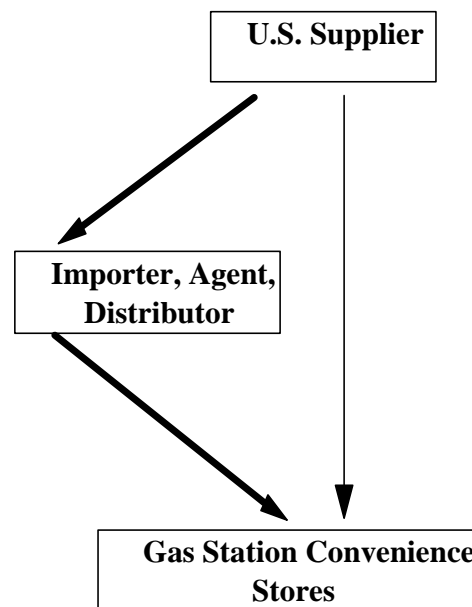
## **B. Convenience Stores, Marts and Kiosks**

### **Distribution Channel**

In Honduras, convenience stores are exclusively operated by gas stations all over the country. Major petroleum transnational firms have established a strong niche in this food retail segment.

Proceeds from convenience stores represent around 10 percent of the total sales for gas stations. Many of the same companies that supply supermarkets also supply the convenience stores.

Convenience stores specialize in fast foods, hotdogs, sandwiches and pizza, but also carry high-quality imported goods such as snacks, cookies, assorted candy, chocolates, ice cream, sodas, beer, deli meats and groceries. Around 70-75% of these products are imported from the U.S. Pricing strategies vary among store chains, typically ranging from 20 to 40% above supermarket level prices, to those competing with supermarket pricing on basic food items and beverages.



### **Entry Strategy**

The procedure for entering the convenience store market is much the same as for supermarkets. Success in introducing a product depends on local representation and personal contact. It is best to appoint a distributor in Honduras that can provide sound penetration and distribution support to your product.

Although these stores purchase imported goods through local suppliers, the majority of goods are subjected to brand and space management policies set by the gas companies. It is recommended that U.S. firms try to establish direct contact with gas company executives, in order to pitch new products into company-managed convenience stores. However, sellers should also be prepared to negotiate with individual dealers and assume some credit risk for privately-operated stores.

### **Company Profiles**

<i><b>Retailer</b></i>	<i><b>Ownership</b></i>	<i><b>Sales (\$ in Millions)<sup>1</sup></b></i>	<i><b>No. of Outlets</b></i>	<i><b>Locations</b></i>	<i><b>Purchasing Agent Type</b></i>
Star Mart	Texaco	10.6	22	Nationwide	Importer Distributor
Food Mart	Texaco	9.4	26	Nationwide	Importer Distributor
Select	Royal Shell	2.4*	10*	Tegucigalpa San Pedro Sula, La Ceiba	Importer Distributor
Super 7	DIPPSA Local	2.0	8	Tegucigalpa San Pedro Sula, La Ceiba	Importer Distributor
Petrosun	Local	0.5	2	Roatan	Importer Distributor
Eco Mart	COPENA Local	n/a	3	San Pedro Sula La Ceiba, Copan	Importer Distributor

Note: Sales figures are estimates obtained from industry sources

### **Trends and Highlights**

- TEXACO owns the largest chain of convenience stores, with 43% share of the market, offering gas station owners the choice of setting up a franchised higher-end store (Star Mart) or a privately-owned lower-end one (Food Mart).
- Next year, Texaco will import directly from the U.S. and for such purposes a warehouse has been built to supply all Texaco stores. As from October 2001, Texaco Caribbean Inc. is a subsidiary of CHEVRON-TEXACO.
- Texaco will be moving from cold to fast food markets by managing two installations of Jerry's, a franchise for pizza, chicken and subs. They will be able also to enter contract with more than one franchise. If a company wants to have more space for its products in their outlets, Texaco will be able to rent it.
- The number of convenience store outlets increased by 43%, up 24 outlets from 47 in 1999, to at least 71 in the year 2001. Largest increases have been posted by Food Mart outlets (up by 14 stores) and Super 7 (up by 6 stores).
- Food sales through convenience stores are estimated to have increased by at least 55%, mainly as a result of higher number of outlets in the market, and new store formats designed to attract new customer segments and more customer traffic.

- Larger convenience store chains now lease space to fast-food restaurants, such as Pizza Hut, Wendy's and Pollo Campero to set up drive-thru and carry-out services.
- Increasing competition has lead stores to reduce profit-margins by as much as 10%, however, still remaining 20 to 40% above supermarket price levels.
- SUPER 7 stores are becoming more family-oriented by offering kid meals and treat in their menus. Tiger Market stores are opening playgrounds where families can take children out to play, or can be rented for hosting birthday parties. These chains are leading the effort to break away from the traditional perception that convenience stores only targeted the late-night juvenile crowd.
- One of the advantages of Super 7 Stores is that is locally owned and the negotiation is with one person for a whole group. Super 7 do not lease space for restaurant, since they are partners. They are developing QSR (Quick Service Restaurants) with U.S. companies such as Valentine's.
- Stores carry a greater variety of basic groceries, such as fluid milk, cheese, eggs and bread, and ready-made dinner items, in an effort to appeal to working parents with limited time to cook meals at night.
- Nearly 70-75% of all food products sold are imported from the US, indirectly, through local distributors.

### **C. Traditional Markets & Small Independent Grocery Stores**

#### **Entry Strategy**

There are two types of traditional market in Honduras. One is the open-air farmer's market, where growers intermediaries sell their products directly to consumers. Typically, each grower has a make-shift stand and sells his product every day. These markets are highly heterogeneous, but primarily concentrate in fresh fruits and vegetables and basic staple grains (beans, corn and rice). The second is the corner store, known as 'pulperia', which is typically a mom & pop type operation. The number of these stores is huge, with some 5700 in Tegucigalpa, and 3,900 in San Pedro Sula. Both cities combined account for 55% of the total number of small stores in the country.

Penetration to the mom & pop type stores can be achieved by selling to an established local importer. Access requires direct delivery, 60-90 day credit terms, first position and shelf-space incentives, displays and promotions. A direct marketing strategy aimed at these outlets is not recommended. Point of sale material is often used and promoted by suppliers in these type of outlets. Reliable distribution logistics is the key to grow market share in this store segment.

#### **Trends and Highlights**

- Traditional farmers' markets still pull much of their product directly from local producers and small wholesalers.
- Small stores represent approximately 45 to 50 percent of food sales at retail, and over 65 percent of non-alcoholic and beer sales.
- Local bottlers (PEPSI and Coca-Cola) continue to diversify their retail sales strategies by expanding sales promotions directly to small stores and beverage wholesalers, bidding for the exclusivity rights of these outlets to sell their products.
- Small stores carry a limited inventory of products and have higher unitary prices than supermarkets.

### **SECTION III. COMPETITION**

- In the aggregate, U.S. market share of consumer-oriented agricultural imports is estimated at 41%, with several individual food categories, like fresh fruit, tree nuts, wine and beer, cornering more than 60% of the local market.
- Guatemala, El Salvador and Mexico are the U.S. main competitors for the Honduran import food market.
- European and South American suppliers face more difficulty in competing with U.S. counterparts, due to proximity, high perception of American products in the local market, and long-standing commercial ties with Honduras.
- The recent signing of a Free Trade Agreement between Mexico and the northern triad of Central America (Guatemala, El Salvador and Honduras) has allowed Mexican imports to increase presence in the market. Presently, Mexican imports have 8.3% of the market, an increase of 2.6% over the previous year, when their market share was 5.7%. Mexico has gained this market share by increasing its presence in the bread and snacks categories, with brands such as Sabritas, Bimbo and Marinela cornering as much as 15% of all Mexican food imports to Honduras. These imports include the distribution of U.S. licensed products to Sabritas, such as the Frito Lay brand.
- Guatemala and El Salvador, combined, account for roughly 31% of the market share of food imports. This share is held primarily by brands such as Diana & Bocadeli (sweet snacks and candy from El Salvador), Kerns, Royal & Del Monte (canned products and gelatins from Guatemala).
- New Zealand and the Netherlands are important suppliers of powdered and instant milk, accounting for roughly 6% of the market for consumer-oriented products, but more than 65% of dehydrated milk-based products. Increasing New Zealander investment in dairy processing plants in El Salvador are likely to bolster the presence of their products in Honduras.

- Chilean imports continue to gain ground, especially in the wine and fresh fruit (grapes) categories, however their presence account for less than 2.4% of total food imports.

#### **SECTION IV. BEST PRODUCTS PROSPECTS**

##### **A. Products present in the Market with Good Sales Potential**

- Breakfast cereals
- Tree nuts
- Red meats, chilled or frozen (especially prime pork and beef cuts)
- Beer
- Cheese
- Dog and cat foods (dry type)
- Red meat, preserved/prepared (especially sausages and deli-meats)
- Fruit and vegetable juices
- Processed fruit and vegetables
- Fresh fruits (especially apples, grapes, pears and plums)

##### **B. Products not present in the Market, because of significant barriers or that will not do well.**

Given that per capita income in Honduras is low, food items that carry a high price tag will usually sell sluggishly, especially if lower price substitutes are available in the market. Some high-end wines and gourmet foods may fit this category. However, U.S. suppliers seeking to sell these type of products should target supermarkets that cater to middle-upper class buyers and that carry a wide variety of high-end products.

Other imports are banned or hampered by labeling, sanitary and/or product registration requirements. Best examples of these products are fresh, frozen poultry meat and eggs.

There are import quotas on other items, such as corn and rice. For a complete explanation and review on how to export food to Honduras, please refer to our Exporter Guide 2001 at [www.fas.usda.gov/scripts/default.asp](http://www.fas.usda.gov/scripts/default.asp)

#### **SECTION V. POST CONTACT AND FURTHER INFORMATION**

If you have any questions or comments regarding this report, or need assistance exporting to Honduras, please contact the Office of Agricultural Affairs at the address listed below:

Office of Agricultural Affairs  
U.S. Embassy

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